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UNEMPLOYMENT COMPENSATION IN ILLINOIS: CURRENT PROBLEMS AND FUTURE PROSPECTS

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UNEMPLOYMENT COMPENSATION IN ILLINOIS: CURRENT PROBLEMS AND FUTURE PROSPECTS

by

Samuel Bernstein

(Address at the Tenth Annual Central Labor Union Conference, sponsored by the Illinois State Federation of Labor and Congress of Industrial Organizations and conducted by the University of Illinois Institute of Labor and Industrial Relations and Division of University Extension, December 5, 1958, at Robert Allerton Park, Monticello, Illinois.)

In a speech I delivered at this very same Institute on January 4, 1957, I commented upon the fact that seventeen eventful years had elapsed since Illinois began to pay benefits under its new unemployment compensation law. I pointed out that, of course, no one can predict what the evolution of the unemployment compensation system will be in the next seventeen year period, but I assured my audience that there will be changes. I am afraid that what I had in mind then was merely that the Seventieth General Assembly was beginning its regular session, and that it was likely to consider the kinds of problems in relation to unemployment compensation which had been before it in prior sessions--the weekly benefit amount, specific proposals relative to the eligibility and disqualification provisions of the law, and, possibly, some changes in our experience rating formula.

In the background, of course, other problems existed, but they did not appear to be immediate. Our unemployment compensation system had taken the recessions of 1949-1950 and 1954-1955 in stride; I might even say with flying colors. There was no reason to believe that a more severe test of the capacity of our system to do its job was imminent. Nevertheless, in 1952 and 1953, we had made a study of the financial structure of our system. We were fully aware of the existence of certain weaknesses in that structure. For one thing, the ratio of our reserve fund to taxable wages was gradually contracting; in other words, the capacity of the fund to

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meet its potential benefit liability was gradually being reduced by the steady rise in aggregate taxable payrolls. Secondly, the provisions of our law for fund replenishment in the event of a period of unusually heavy benefit payments appeared to be inadequate.

The results of the study were presented in detail to our Advisory Board in 1953. In that year, the Board recommended corrective amendments of the Unemployment Compensation Act, but they were not enacted into law.

At any rate, no one could foretell in January, 1957, that, a year later, we would be in the midst of a recession more severe than the prior two postwar recessions. During all of 1957, benefits paid to Illinois workers had totaled $80,721,000. The total for only the first six months of 1958 was $115,000,000. The weekly number of beneficiaries during 1957 had been a little over 56,000; during the first half of 1958, this weekly average was over 146,000. During 1957, we had paid benefits for 2.9 million weeks of unemployment; at the end of the sixth month of 1958, 3.8 million weeks had already been compensated. The reserve fund, which had been in excess of $482,000,000 on June 30, 1957, had contracted to $419,500,000 by June 30, 1958. As of September 30, 1958, it was down to $379,629,000.

Our experience this year has brought a host of questions to the fore relative to our program. Unemployment compensation is designed to insure workers against the risk of losing their jobs and means of livelihood, by replacing a part of the wages they have lost as a result of their unemployment. Its role is not only the alleviation of the hardships which befall individuals thrown out of work, but also that of helping to stem the tide of recession by combating the contraction of community purchasing power. Is the program doing its job effectively?

Our State unemployment insurance systems provide benefits for unemployed workers only for a limited period of time. Obviously, benefits cannot be paid to a worker for a period of unlimited duration. On the other hand, are the limits established by the Illinois law realistic? Is the program doing its job effectively in this area?

I have already mentioned the fact that the fund reserved for the payment of benefits has substantially contracted in size. What does the future hold in store for the fund? What can be done to insure its adequacy to meet its future liabilities?

These are the questions I plan to examine today.

The Weekly Benefit Amount

When we think of the role of our program in replacing a part of the wages lost by the worker who is out of work, and in helping to prevent undue contraction of community purchasing power, the central problem is one of the adequacy of the weekly benefit paid to unemployed workers. There are a number of ways in which the adequacy of the weekly benefit can be measured. But while we do the measuring, we must keep in mind that unemployment compensation is intended to replace only a part of the wages lost by the worker. The amount of the weekly benefit must, therefore, be determined by a formula which establishes, for all beneficiaries, a uniform relationship between benefits and prior earnings. While the size of the weekly benefit for each beneficiary is determined by the amount of his prior earnings and, therefore, varies from one person to the next, the proportion of wage loss to be compensated is,normally, the same for all.

What the actual proportion of wage loss to be compensated should be is, to a considerable degree, a matter of public policy. On the one hand,

it is widely recognized that the proportion should not be so small as to depress living standards unduly, or to require many beneficiaries to resort to relief to supplement benefits. On the other hand, it is argued that the proportion should not be so large as to threaten the beneficiary's incentive to look for a job.

Back in 1934, the Committee on Economic Security created by President Roosevelt, whose report ultimately led to the enactment of the Social Security Act and the State unemployment compensation laws, assumed a weekly unemployment compensation benefit which would equal 50 per cent of prior weekly wages. While the basis for this assumption is not entirely clear,it appears to have been an attempt to approximate that proportion of the wages of workers which is normally used for ordinary living expenses which cannot be deferred during periods of unemployment. These non-postponable ordinary living expenses are, basically, those for food, rent, and utilities.

More recently, in 1954 and on other occasions, President Eisenhower urged the States to overhaul their laws to achieve substantially the standard recommended long ago by the Committee on Economic Security. But the President was not concerned primarily with the benefit formulae themselves. As a matter of fact, the overwhelming majority of the State laws contain formulae which, if permitted to operate without limit, would provide for all workers who had relatively full employment during their base periods a benefit equal to at least 50 per cent of their prior average weekly wages. The Illinois formula yields a benefit generally somewhat higher than 50 per cent of the worker's prior average weekly wage.

However, no State permits its formula to operate without limits. The most important of these limits is the statutory ceiling on the weekly benefit. No one may receive a weekly benefit in excess of this ceiling, regardless of the amount of his prior average weekly wage.

The imposition of a statutory ceiling on the weekly benefit is based on the theory that a worker who earns $300 a week should not get $150 a week in benefits. But the ceiling also creates the danger that, in a period of rising price and wage levels, it will remain stationary, or, at best, it will more upward too slowly. As a result, with the passage of time and the increase in price and wage levels, the benefit formula operates less and less effectively. More and more workers bump against the statutory ceiling and their weekly benefit is smaller than the proportion of wage loss which the benefit formula says they ought to get. To put it another way, fewer and fewer workers receive a weekly benefit which enables them to buy non-postponable necessities during periods of unemployment.

The danger I have spoken of has become an actuality. Although the States have acted from time to time to raise the ceilings on the weekly benefit, the rate of these increases has lagged behind that of prices and wages. This is what the President was concerned with when he urged the States to return to the standard set by the Committee on Economic Security. Specifically, he asked the States to raise their ceilings to a sufficiently high level to permit the great majority of the beneficiaries to qualify for a weekly benefit equal to at least half their prior earnings. While many States responded to his plea by raising their ceilings, most of them still have a long way to go to reach the goal he suggested.

Here in Illinois, if you look at the number of times the ceiling has been raised since The Unemployment Compensation Act became law, you may be impressed by the fact that it has, actually, been steadily rising. In July 1939, when benefit payments first began, it was $16. Effective in 1942, it was raised to $18; two years later, to $20. In 1950, the maximum became $25; in 1952, $27. Effective with 1956, Illinois adopted a system of variable maximum weekly benefit amounts, based on the number of the beneficiary's specified dependents. To reach any of the prescribed ceilings, the beneficiary must still have been paid sufficient wages, under the benefit formula, in a specified prior calendar quarter. Under the new system, the maximum possible weekly benefit for a person without the specified dependents was $28; it went up, at $3 intervals, with the number of dependents, to a top of $40, payable to a person with four or more dependent children.

In 1957, the maximum possible weekly benefit was raised to $30 for a person without the specified dependents. For a person who has a dependent, non-working spouse, the weekly benefit can reach a top of $33; for one with a dependent child, it can reach $36; for one with two such children, $39; with three such children, $42; and with four or more dependent children, $45.

Now, $45 sounds like an adequate weekly benefit. However, only persons who have four dependent children can qualify for it if they have sufficient prior wages. Figures for the second quarter of 1958 tell an interesting story in this connection. More than 3 out of 5 of our beneficiaries (61.6 per cent) during that calendar quarter had no dependent spouse or child. The ceiling on the weekly benefit for them was $30, no matter how high their prior wages were. Less than 1 out of 12 of our beneficiaries (7.8 per cent) had a dependent spouse; 1 out of 8 of our beneficiaries (12.3 per cent) had

a dependent child. Not quite 1 beneficiary out of 10 (9.2 per cent of the beneficiaries) had two dependent children. Only 5.1 per cent had three dependent children; and only 3.9 per cent could qualify for the highest ceiling of $45 because they did have four dependent children.

A significant fact about our program is that the vast majority of our beneficiaries now qualify for the maximum weekly benefit applicable to them. Thus, during the last quarter of 1957, 84.4 per cent of the beneficiaries without dependents qualified for the maximum weekly benefit of $30. When more than 4 out of 5 beneficiaries qualify for the maximum, it is a good indication that their prior average weekly wages were sufficiently high to have qualified them for a higher weekly benefit under the benefit formula if its operation had not been limited by the statutory maximum. It must be concluded that their weekly benefit constituted an inadequate replacement of the wages they lost as a result of their unemployment.

There is another way of measuring the adequacy of the weekly benefit. In 1939, average weekly wages of Illinois workers covered by The Unemployment Compensation Act were $29.27. In 1940, the maximum possible weekly benefit was $16. Thus, the statutory maximum in 1940 equaled more than half the prior average weekly wages of covered workers in the State.

On the other hand, average weekly wages of Illinois workers covered by The Unemployment Compensation Act in 1957 were $93.62. In 1958, the highest possible weekly benefit for 3 out of 5 workers was $30, or less than one-third of prior average weekly wages of covered workers in the State. Even the highest ceiling of $45, available to the less than 4 per cent of the beneficiaries who had four dependent children, was less than half the prior average weekly wage in the State.

The same comparisons could be made with the increase of the cost of living. Although wages have increased faster than the cost of living, the weekly benefit has lagged far behind the increase in the cost of living.

I have spent some time analyzing the Illinois maximum weekly benefit to indicate that it presents a basic problem. If the weekly benefit should be 50 per cent of prior average weekly wages for the great majority of beneficiaries, as indicated by President Eisenhower, Illinois has fallen somewhat short of the goal. I should like to point out, however, that the same is true of most of the other States. In only nine States does the statutory ceiling on the weekly benefit equal or exceed 50 per cent of the State's prior average weekly wage.

It is true, however, that, in the last quarter of 1957, the $30 ceiling on the weekly benefit in Illinois equaled only 33.2 per cent of the State's 1956 average weekly wages of covered workers. Only in Michigan and Alaska was the proportion even lower. It is also true that, at this time, the maximum weekly benefit in 32 States is higher than the $30 first ceiling in Illinois. In four States, it is $32; in four others, including Ohio and Indiana, it is $33; in two, it is $34; and in nine, including Massachusetts, New Jersey, and Pennsylvania, it is $35. Four other States have maximum weekly benefits of $36, $37.50, $38 and $39, respectively. The basic maximum weekly benefit is $40 in five additional States, including California; and itis $42 in Wisconsin, $43 in Wyoming, and $45 in New York and Alaska.

Benefit Duration

Unemployment Compensation has generally been regarded as a program designed to provide protection against short duration unemployment.

If the duration of an individual's unemployment stretched beyond a period considered to be ample enough for most workers to find new jobs, his problem was regarded as beyond the scope of unemployment compensation and there was vague reference to the need for some other program to which he might look for help.

Initially, no State provided for a duration of benefits longer than 16 weeks. As the years passed, the trend toward a longer period of protection led to the point at which 26 weeks became the generally accepted standard of maximum benefit duration. Now 30 States, including Illinois, have 26 weeks of maximum duration. Wisconsin provides for 26½ weeks, Louisiana for 28 weeks, and Pennsylvania for 30 weeks.

In the first two months of 1958, 292,000 persons in the United States exhausted their regular unemployment compensation benefits. By the end of April, the number of exhaustees had risen to 713,000. As early as that month, it was already being estimated that 2,600,000 workers in the United States would exhaust their regular benefits during 1958.

Anti-recession bills were introduced in Congress by the dozen. During February and March, more than two dozen bills were introduced relating to unemployment compensation alone. The most far-reaching bill was that introduced by Senator Kennedy for himself and 17 other Senators. Among its many provisions, was one which would have required Federal grants to the States for emergency supplementation of State weekly benefits, as well as for the payment of extended benefits to unemployment compensation beneficiaries for a uniform 39 weeks. Moreover, the bill would have required the States to amend their laws to raise the ceilings on their weekly benefit amounts and to provide for uniform benefit duration of 39 weeks, beginning July 1, 1959.

As the weeks passed, it became clear that the Congress was primarily concerned with the fact that the mass unemployment caused by the recession was lasting beyond the periods of benefit duration provided for by the State unemployment compensation laws. In other words, the recession had put into question the adequacy of the duration standards in effect in the States, and had created the immediate problem of providing protection for the rapidly growing number of those who had exhausted their regular benefits. The approach in Congress was that this was an emergency which required immediate remedial action. This was also the primary concern of the national administration.

The result, as you know, was the enactment of the Federal Temporary Unemployment Compensation Act of 1958. It became law, upon the President's approval, on June 4, 1958. It provides that any State which wishes to do so may enter into an agreement with the Federal Government whereby the latter advances funds to the State to defray the cost of extended benefit payments to those who exhausted their regular State benefits and have no other benefit rights. Under the agreement, an exhaustee who is otherwise eligible for benefits is paid the same weekly benefit as he had before he exhausted his regular benefits; the duration of the extended benefits equals half the duration of his exhausted regular benefits. The Federal program automatically lapses after the week beginning March 31, 1959.

Under the Federal Act, the advances made to any State which participates in the program must be restored to the Federal Government. If the State does not do so by the end of 1962, either from its general funds or from its fund reserved for the payment of benefits, then, beginning with 1963, the effective Federal Unemployment Tax levied upon employers in that State will go up from the present 0.3 per cent to

0.45 per cent; for 1964, if a balance is still due from the State, the tax will go up to 0.6 per cent; for 1965 it will rise to 0.75 per cent, and so on, until the full balance due is restored.

As of now, seventeen States, including 7 major industrial States, participate fully in the Federal program. Five additional States, including Illinois, and Ohio, have established their own programs for paying extended benefits.

In Illinois, exhaustions of regular benefits during the early part of 1958 jumped dramatically from one month to the next. In January, the number of exhaustees was 6,760; in February, it was over 7,000; in March, it was 9,000; in April, 13,000; and in May, over 15,000. Governor Stratton decided that the problem required legislative action, and, as you know, he convened a special session of the General Assembly on June 16, 1958, for the purpose. Following the Governor's expressed preference for independent State action on the problem, the General Assembly enacted an amendment of The Unemployment Compensation Act, providing for the payment of temporary emergency benefits from the Illinois reserve fund. The Governor approved the bill on June 20, 1958, and it became fully effective on July 1.

Under the new amendment, temporary emergency benefits are payable to those who exhausted their regular benefits after November 30, 1957, did not have any other benefit rights, and are otherwise eligible for benefits. An exhaustee's weekly benefit is the same as his last regular weekly benefit, and the duration of his temporary emergency benefits cannot exceed half the duration of his prior regular benefits. Like the Federal program, the Illinois program of temporary emergency benefits automatically lapses after the week beginning March 31, 1959.

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I can give you four figures which may indicate the importance of the temporary emergency benefits program. Between December 1, 1957, and October 31, 1958, 134,500 persons exhausted their regular Illinois benefits. During the first four months of the program (between July 1 and October 31), 83,850 of them received temporary emergency benefits totaling $19,580,000. During the same four months, Illinois benefits paid to regular beneficiaries totaled $56,100,000. As you can see, temporary emergency benefits equaled more than one-third of the regular benefits paid during the same period. It is obvious that temporary emergency benefits are performing an important role both in protecting individuals still out of work, and in maintaining purchasing power in the State.

Both the Federal and the Illinois emergency programs will lapse in another four months. How serious a gap will they leave? It is, of course, difficult to tell. Our economy has obviously been on the upgrade, but the volume of unemployment is still relatively high. The problem in Illinois is of an immediate nature, because Governor Stratton has expressed his expectation that the Board of Unemployment Compensation and Free Employment Office Advisors will make recommendations on the subject to him and to the Seventy-First General Assembly which convenes in January.

There is a considerable body of opinion that the current duration standard of 26 weeks for regular benefits is inadequate. The enactment of temporary emergency benefit programs to combat the effects of the long duration unemployment caused by the current recession is suggestive of the direction which the program may take in the future.

I am confident that much thought is being given throughout the country today to ways and means of filling the vacuum when the Federal and State temporary emergency benefit programs expire at the end of March.

Now that a precedent has been created by the establishment of these programs, thought is no doubt being given to permanent statutory provisions for programs of extended duration which would automatically go into effect when the volume and duration of unemployment rise beyond some specified point. Certainly, if provisions for extended benefits are deemed necessary in periods of emergency, it is better to have them in the laws, ready for use, than to rely upon special Congressional and legislative action when the emergency is already upon us. It will be interesting to see to what extent the States will act to insert such provisions in their laws, and what form these provisions will take.

Fund Adequacy

I have already mentioned the fact that the Illinois reserve fund has been edging downward since the beginning of the recession. It was more than $100,000,000 smaller at the end of September than it had been fifteen months earlier. Our estimates show that the downward trend is likely to continue.

As of last June 30, the fund stood at $419,500,000. During the year which will end next June 30, we expect an income of about $74,100,000, of which $64,900,000 will be in the form of contributions from employers subject to the law, and $9,200,000 will be interest on our fund. However, we expect to pay out, between last July 1 and next June 30, a total of $215,600,000 in benefits. Of this sum, $176,800,000 will be the payments under the regular program, and $38,800,000 will be those under the temporary emergency benefit program which will lapse at the end of March. That means that the balance in the fund on June 30, 1959, will be down to an estimated $278,000,000.

If our estimates are correct -- and I have no reason to doubt them -- it is obvious that action must be taken to insure adequate fund replenishment.

Before I discuss replenishment, however, I should like to point out not only that the situation in Illinois is not unique, but that some other industrial States are, right now, in serious financial plight. As of August 31, 1958, when the Illinois fund was 5.1 per cent of its taxable wages, the Rhode Island fund was down to 3.8 per cent of its taxable wages. Delaware was down to 2.5 per cent of its taxable wages. Pennsylvania was down to 2.3 per cent. Michigan was not only down to 2.3 per cent of its taxable wages, but it has had to borrow $113,000,000 from the Federal Government to replenish its fund. (Pennsylvania would have borrowed, also, except that it had no authorization to do so under its own law.) Alaska and Oregon are also in financial difficulties.

However, the fact that Illinois has not reached the point of fund insolvency should not lead to complacency. The ratio of the Illinois fund to taxable wages, which is one of the best indicators of the potential benefit liability of the fund, has been steadily contracting, and will continue to do so under our present law. We estimate that the average contribution rate for 1959, based upon our present statutory experience rating formula, will be in the neighborhood of 1 per cent of wages, as compared with the average estimated rate of 0.77 per cent for 1958. It is clear that, if we are to assure fund replenishment, employers will have to contribute at a substantially higher rate in 1960. In order to secure such replenishment, however, legislative action in 1959 will be necessary. I might observe that, unless such action is taken, Illinois may, some time after June 30, 1959, become eligible to join Michigan in borrowing Federal funds to keep going. These borrowed funds would ultimately have to be

restored to the Federal Government, either by the State itself, or through increases in the Federal Unemployment Tax payable by Illinois employers. I am sure that all interested groups in Illinois would prefer that we solve our financial problem without resort to the Federal loan fund.

There are several ways in which substantially higher contributions income in 1960 can be assured. All of them are under consideration. Whether some or all will find their way into the law in 1959, or what form they will take if they do become law, is in the laps of the gods.

One way to produce additional income to the fund is to broaden the tax base. As you know, contributions are now payable only on the first $3,000 of the wages paid to a worker by an employer in a calendar year. This $3,000 limitation was established by the Federal Unemployment Tax Act in 1939, and under the Illinois Act in 1940. All the States placed the limitation in their laws to conform with the Federal Act. At that time, relatively few workers had earnings in a year in excess of $3,000. Today, on the other hand, $3,000 is no longer high enough a ceiling in relation to workers' annual wages. Five States have already recognized this fact and have amended their unemployment compensation laws to broaden the tax base to $3,600. In Alaska, the tax base is $4,200. Over the years the Federal Insurance Contributions Act has been amended several times to broaden its tax base, for old age, survivors, and disability insurance purposes, from $3,000 to $3,600, to $4,200, and, effective with 1959, to $4,800.

There is an important body of opinion that the $3,000 limitation in the Illinois law is outdated and that the time has come to raise it. I might interject at this point that the pressure for raising the $3,000 wage base under the Federal Unemployment Tax Act is also increasing. As you know, the Federal tax equals 3 per cent of the first $3,000 of wages paid to a worker in a calendar year. Against this tax, an employer who pays

contributions under a State unemployment compensation law may offset the amount of such contributions, up to 90 per cent of the tax. Thus, the Federal Government's tax receipts are 0.3 per cent of wages. The cost of administering the State employment security systems and the Federal functions relating to employment security are financed from these receipts. Over the years, administrative costs have been rising to the point where the tax receipts will soon be insufficient to finance them. It is likely, therefore, that Congress may act either to increase the tax or to broaden the tax base. If it does the latter, Illinois will automatically do so, too, because of a provision in the Illinois Act that the term "wages" includes any remuneration defined as "wages" under the Federal Act.

Another way to produce additional income to the Illinois fund is to raise the top variable contribution rate from the present 3.25 per cent to some higher level. There are a number of employers in Illinois whose experience with the risk of unemployment is so adverse that, were it not for the statutory maximum contribution rate, they would be contributing at substantially higher rates. It is argued by those who advocate a maximum contribution rate higher than 3.25 per cent that these high risk employers are not carrying their full burden of the cost of unemployment.

A third possible change which would lead toward fund solvency would look to a revision in the replenishment formula in our law. At present the Act sets maximum and minimum limits for the fund at absolute dollar figures, rather than percentages of the taxable payroll, and calls for adjustment in rates when the fund falls below or exceeds these limits. These limits have no relationship to any measure of the benefit liability or financial adequacy of the fund. It is obvious, for example, that the stated minimum of $290,000,000 is unrealistic in the light of the estimate that, in the 12 months which will end next June 30, an estimated $215,600,000 will be paid out in benefits.

To be realistic, we believe the maximum and minimum amounts should have some relationship to taxable wages. If the minimum amount, for example, were stated as a specified percentage of taxable wages, and if that percentage were set at a level high enough to insure that substantial rate increases would begin, and fund replenishment start, while the fund still has enough money to meet its potential benefit liability for a reasonable period of time, the fund would be sufficiently strengthened to withstand the blow of recession unemployment. It is important to note, however, that such a change in the law in 1959 would result in truly substantial increases in contribution rates for Illinois employers in 1960.

As I have already said, all of the methods of fund replenishment I have outlined to you are being avidly discussed by interested groups. I have only one observation to make, and that is that whatever the result may be, some change in the law is essential and, I believe,inevitable if the Illinois reserve fund is to be prevented from falling into great danger.

The title of my talk was "Unemployment Compensation in Illinois: Current Problems and Future Prospects." I have spoken of the weekly benefit amount, of extended benefit duration, and of reserve fund adequacy. These three subjects appear to me to be currently the most important aspects of our unemployment compensation program. The events of the next biennium which bear upon them will, I believe, shape the entire program and the degree of its effectiveness both as insurance and as a first line of defense against economic adversity, for years to come.

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